

ORIGINAL

GARDNER, CARTON & DOUGLAS

1301 K STREET, N.W.

SUITE 900, EAST TOWER

WRITER'S DIRECT DIAL NUMBER

WASHINGTON, D.C. 20005

CHICAGO, ILLINOIS

Edward P. Taptich  
(202) 408-7165

(202) 408-7100  
FACSIMILE: (202) 289-1504

DOCKET FILE COPY ORIGINAL

October 11, 1995

RECEIVED

OCT 11 1995

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Ms. Kathleen M. H. Wallman  
Chief, Common Carrier Bureau  
Federal Communications Commission  
1919 M Street N.W., Room 500  
Washington, D.C. 20554

**Re: GTOC Transmittals 873, 874 et seq.  
CC Docket No. 94-81**

Dear Ms. Wallman:

Pending before the Bureau in connection with the referenced proceedings are issues relating to GTE Telephone's efforts to reallocate its non-regulated investment in Cerritos to regulated investment for purposes of rationalizing its proposed tariff rates -- particularly those to its affiliate, GTE Service Corp. Such matters have been addressed in GTE Telephone's June 13, 1994 "Petition For Waiver and Authority to Reallocate From Nonregulated to Regulated Use," and by other parties opposing those efforts (see, e.g., "MCI Petition to Request or, in the Alternative, Suspend and Investigate," May 9, 1994; MCI "Comments," September 15, 1994. In support of its position, GTE Telephone has suggested that the Commission staff has already determined that its Cerritos accounting is satisfactory, thereby implying that the need for close scrutiny of the financial data submitted in support of its tariff proposals is diminished.

In response to an MCI challenge to the adequacy of GTE Telephone's nonregulated asset valuation, for example, the carrier observed that as to its Cerritos investment --

GTECA has filed periodic reports with the Commission and the Commission's staff has conducted audits of GTECA's accounting and financial records.

"GTE Rebuttal to Oppositions and Reply Comments," September 30, 1994, p. 5. The same suggestion was made more recently -- and more expansively -- in the carrier's July 28, 1995

No. of Copies rec'd  
List ABCDE

024

Ms. Kathleen M.H. Wallman  
October 11, 1995  
Page 2

Section 214 application (W-P-C-7097). In describing its "accounting safeguards" against the potential anticompetitive conduct which Apollo has argued will occur, GTE Telephone's application (p.6) stated as follows:

In the [1989] Cerritos Order, the Commission required GTECA to account for all costs of its Cerritos operations on a non-regulated "below-the-line" basis. GTECA has established unique sub-accounts which have permitted it to properly track and record all investment, expense and revenue amounts associated with its Cerritos operations. These accounting systems and records have been reviewed and audited the Common Carrier Bureaus' [sic] Accounting and Audits Division. . . .

The clear implication, therefore, was that GTE's accounting for Cerritos, both for tariff rate and for Section 214 purposes, had already been blessed (or at least not challenged) by the Bureau's own personnel.

Apollo learned yesterday that such is not the case.

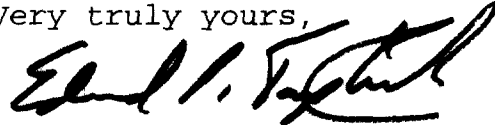
In light of GTE Telephone's Section 214 statement, Apollo, on August 10, 1995, had filed a FOIA request with the Commission, seeking any documentation concerning an Accounting and Audits Division review of GTE Telephone's Cerritos "accounting systems and records". At a meeting yesterday afternoon among personnel of the Accounting and Audits Division, Apollo counsel and GTE counsel, it was learned that in fact no "review" or "audit" of the carrier's Cerritos investment accounting has occurred since 1988 (prior to the commencement of operations in Cerritos). Moreover, GTE Telephone has objected to the release of any information concerning a 1988 audit or a "visit" by unnamed Accounting and Audits Division personnel in December 1993/January 1994 to the Cerritos site.

At this point, Apollo is awaiting the Commission's ruling on Apollo's FOIA request. What is already clear, however, is that in fact there has been no Accounting and Audits Division approval -- and certainly no "review" or "audit", in the ordinary sense of those words -- of GTE Telephone's Cerritos accounting since 1988. Moreover, it is unclear what occurred, or what conclusions, if any, were reached, in 1988 concerning the carrier's then-proposed accounting.

Ms. Kathleen M.H. Wallman  
October 11, 1995  
Page 3

In evaluating the tariffs and tariff rates at issue, therefore, the carrier's unexamined accounting and recordkeeping since 1988 is entitled to no presumption of accuracy or validity. The close scrutiny of GTE Telephone's nonregulated asset valuation urged by MCI and supported by Apollo is fully warranted, both for rates evaluation and for potential anticompetitive effects purposes.

Very truly yours,

A handwritten signature in black ink, appearing to read "Edward P. Taptich", written in a cursive style.

Edward P. Taptich

cc: Geraldine Matise  
David Nall

Counsel for the parties to  
CC Docket No. 94-81.